

Little initials for firm's name can make a big difference

By Erin Ryan
ARIZONA WOMAN

For new entrepreneurs, choosing what type of business to be isn't as simple as ABC. Federal and state tax consequences, legal ramifications, and messages to your customers all come with the initials at the end of your business's name. Know what each letter could cost you before becoming a C, an S or an LLC.

Because many of the differences are tax-driven, Cammi Bailey, 46, of Bailey, Blum CPAs PLLC in Tempe says the primary concern for most people is minimizing taxes.

"Initially, a lot of business owners become sole proprietorships or limited liability companies because these are fairly simple," she says. "But for tax purposes, those can also be very costly."

For instance, sole proprietors are responsible for all taxes of the business.

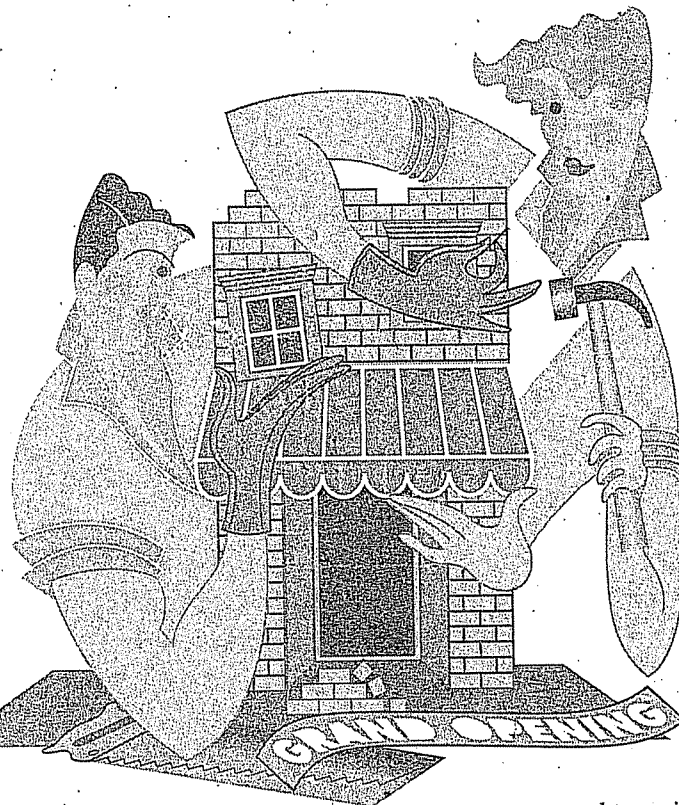
"I always advise talking to a professional so that you don't get blindsided," Bailey said. "I'll have a sole proprietor in to get their taxes done, and they're not aware that there's 15.4 percent tax due."

The process has gotten easier. With the proper paperwork, you can designate one title for your company and opt for it to be treated as a different type for tax purposes. And your decision is not set in stone.

Vicki Harris, of Hunter Hagan & Co. Ltd., says sole proprietorships and LLCs are easy to dissolve or transform to a different entity with little or no tax consequences.

An attorney is another good resource in case you get sued.

"Incorporating provides a 'corporate shield' that separates your business assets and liabilities from your personal finances," Bailey said.



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Cammi Bailey of Bailey, Blum CPAs PLLC in Tempe

All business types except sole proprietorships and general partnerships will shield your personal assets, says Harris, 47.

"If you buy a house to rent out, you want to (make it a corporation) so if your tenant slips and falls, he can only look to the property to sue. You've limited your exposure."

Legal issues can also arise from your company's designation when you consider how you represent yourself to the public.

"You can get caught up in liability issues if you've provided a service to someone and they think they're doing business with an individual," Harris said.

When you decide what form your business will take, you must make it known to the public and to the government. For all kinds of corporations, the Arizona Corporation Commission requires a legal notice to be published in a general-circulation newspaper.

Credibility can also come with corporations.

"Having those initials after your name says that you take your business seriously," Bailey said. "You have taken the time and the expense. It legitimizes your business."

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Corporation glossary

Sole proprietorship: A business owned by one individual or an independent contractor providing services to other businesses. The owner is responsible for all taxes, assets and liabilities of the business. File with secretary of state.

C corporation: A completely separate tax entity from owners; owners are treated as employees of the corporation for tax purposes. Business assets and liabilities are separated from your personal finances. File with Corporation Commission.

S corporation: Profit or loss is passed to the individual owners. Not subject to corporate income taxes. Same protection of personal assets as C corporations. File with Corporation Commission.

General partnership: All profits or losses are passed to the individual partners. Liability is shared regardless of each partner's proportionate interest. File with secretary of state.

LLC: Limited liability company. Owners have personal liability shield; only the company can be sued. File with Corporation Commission.

P: Professional designation, such as PC or PLLC. For services including legal and accounting.

For more information, visit www.azcc.gov.